

Fundamentals Level – Skills Module

Taxation (Malawi)

Tuesday 12 June 2012



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on page 3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Public Accountants Examination Council of Malawi

ACCA



Paper F6 (MWI)

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The question paper begins on page 3.**

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest K.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following rates of tax and allowances are to be used when answering the questions

Malawi Income Tax: Rates

K	Individual	Cumulative K
0 – 144,000	0%	0
144,001 – 180,000	15%	5,400
180,001 +	30%	

Company rate

Locally incorporated	30%
Externally incorporated	35%

Annual Allowance – Rates

(Guidelines laid down by the Commissioner of Taxes)

5%	– Industrial buildings
	– Railway lines
	– Farm improvements
10%	– General plant and equipment
	– Trailers
	– Farm fencing
15%	– Mobile cranes
17.5%	– General plant and equipment on double shift
20%	– Motor cycles
	– Cars
	– Pick-ups
	– Light lorries (for light work)
	– Cement mixers
25%	– Light lorries (for heavy work)
	– Tippers
	– Tracked tractors
	– Tree-dozers
	– Scrapers
	– Graders
	– Bulldozers
	– General plant and equipment working 24 hours a day
	– Tractors (for heavy work)
	– Transport services
40%	– Computers

ALL FIVE questions are compulsory and MUST be attempted

- 1 Tanganda Limited is a company which was incorporated in Malawi in the 1970s. The company is involved in the growing and processing of tea and coffee. In addition, it also grows burley tobacco. Tea is sold on the Limbe Auction and also by private treaty. The company makes up its financial statements to 30 September annually.

The company's latest statement of comprehensive income for the year ended 30 September 2011 is shown below:

	K	K
Turnover		76,500,000
Cost of sales		(46,100,500)
Gross profit		30,399,500
Interest receivable	46,500	
Profit on sale of fixed assets	30,400	
Sundry income	15,000	91,900
		30,491,400
Less Expenditure		
Administration	18,579,050	
Finance	4,585,000	23,164,050
Profit before taxation		7,327,350

The following additional information is available in connection with these financial results:

- (i) Tobacco to the value of K10,000,000 was sold on the Tobacco Auction Floors. The amount was received net of withholding tax. Due to an accounting error, only the net amount was included in turnover.
- (ii) Included in cost of sales are the following charges:

	K
Depreciation	2,065,780
Factory – salaries and wages	2,345,600
Electricity and water	2,545,900
Tea and coffee cess	3,456,800

- (iii) Included in administration are the following items of expenditure:

	K
Salaries and wages	5,658,900
Pension costs (only 40% allowable)	658,800
Depreciation	465,800
Profession fees	
– valuation of property	175,000
– legal fees on increase in share capital	65,000
Donations	
– Save the children fund	150
– Magwere CCAP church	155,000
Subscriptions	
– Blantyre sports club	65,000
– Tea Research Foundation	890,000
Fringe benefits tax	235,600

- (iv) Included in finance costs are the following items of expenditure:

– Staff salaries	858,000
– Interest for late payment of PAYE	45,650
– Specific provision of doubtful debts	110,500
– General provision for doubtful debts	75,800
– write off of director's loan	62,500
Fringe benefits tax	115,200
Interest on bank loan	66,500

- (v) The company paid into the pension fund an amount of K475,000, which amount was in the pension's accrual fund. This amount arises from balances at 30 June 2011 arising from severance pay provisions.
- (vi) The company's property and equipment had the following tax written down values as at 1 October 2010:

	K
Tea factory building	9,476,100
Coffee factory building	4,560,000
Plant and machinery	2,545,800
Tractors	4,500,000
Motor vehicles	3,548,000
Computers	235,500
Office furniture and equipment	345,000

- (vii) During the year the company bought and brought into use the following assets:

	K
Second-hand machinery	895,500
Motor lorry	750,000
Laptops (new)	650,400

The company carried out an extension to the coffee factory at a cost of K875,000. This extension was brought into use during the year.

- (viii) Three old computers with a net book value of K15,600 were sold for K46,000. They had a tax written down value of K2,800 as at 1 October 2010.
- (ix) The company spent K395,000 on new coffee development. This amount was capitalised in the financial statements.
- (x) Interest received from the fixed deposit account held with the bank is stated gross.
- (xi) The company paid provisional tax amounting to K1,250,000 by the end of the financial year.

Required:

- (a) Calculate the capital allowances that will be claimed by Tanganda Limited for the year ending 30 September 2011. (15 marks)
- (b) Compute Tanganda Limited's profits chargeable to tax for the year ending 30 September 2011. (10 marks)
- (c) Calculate the tax payable by Tanganda Limited for the year ending 30 September 2011. (3 marks)
- (d) State:
- when the balance of any tax would be payable by Tanganda Limited, and;
 - the interest that would be payable, if not settled on the due date. (2 marks)

(30 marks)

- 2 Peter Kondwani is employed as a sales consultant for Mandebvu Travel Bureau. He is married to Lucia, who works for a local bank as a bank teller.

Peter's earnings from employment were as follows:

Salary – K95,000 per month from 1 January to 31 December 2010. The salary was increased to K100,000 per month from 1 January 2011.

Housing allowance. A fixed housing allowance of K50,000 per month has been paid to him since 1 January 2010.

Other benefits: The company pays for water and electricity at K5,000 and K8,000 per month respectively. This amount is given to him in cash.

School fees of K65,000 per year for the education of his children is paid to him in cash on 1 January each year

The company provides him with free use of a motor vehicle. The car, which is a saloon car, cost the company K6 million when it was purchased two years ago.

Peter belongs to a pension scheme to which he contributes 5% of his salary and the company contributes 10% of salary.

Lucia, who has been employed by the bank for the past three years, earns K65,000 per month. No other benefits are paid to Lucia.

The following is their other income for the fiscal year ended 30 June 2011:

	Peter K	Lucia K
Dividend – listed company	5,200	1,500
Bank interest (net)	22,800	5,600
Rental from property (gross)		360,000
Directors' fee (gross)		120,000

The rental is from property they jointly own in Chirimba. The property is in the form of three houses, which they rent out. The outgoings on these properties for the fiscal year were:

	K
City rates	45,000
Agent's commission	36,000
Construction of driveway	175,000
Repairs to roof	35,000
Repainting of two houses	22,500

In May 2011, two of these properties were sold. Property 1, which cost K235,000 in 2006, was sold for K675,000. Property 2, which cost K185,000 in 2000, was sold for K555,000. The proceeds of property 2 are to be re-invested into another property which will cost K700,000.

The following are the inflation indices available for the period:

Year	Factor
2000	3.164
2006	2.441
2007	1.08
2010	1

Required:

- (a) Calculate the capital gain on the sale of the properties and state how it will be dealt with in the taxable income of Peter and Lucia Kondwani. (6 marks)
- (b) Calculate the tax that will be payable or refundable to Peter and Lucia Kondwani for the year ended 30 June 2011, on the assumption that all taxes deductible at source were duly accounted for. (17 marks)
- (c) Calculate the effect on the tax payable by Mandebvu Travel Bureau as a result of Peter's remuneration arrangements for the year ended 30 June 2011. (2 marks)

(25 marks)

- 3 (a) A taxable person must register for Value Added Tax (VAT).

Required:

- (i) State who is regarded as a taxable person for VAT purposes; (1 mark)
- (ii) State the circumstances in which a person must become registered for VAT and state the time limit for registering. (2 marks)

- (b) A taxable point must be established for purposes of charging VAT.

Required:

State the taxable point where goods are supplied on sale or return basis. (4 marks)

- (c) Mazeze Limited is a company that deals in taxable supplies and is therefore registered for VAT.

In the 12 months period ended 31 December 2011, the company submitted VAT returns as listed below.

In January 2012, the Malawi Revenue Authority carried out an audit on these returns and an audit report was issued on 31 January 2012. The findings were as follows:

Month	Date return submitted	VAT payable K	VAT assessed by MRA K
January 2011	25 February 2011	125,465	125,465
February 2011	21 April 2011	–	60,407
March 2011	21 April 2011	(35,100)	(22,400)
April 2011	1 June 2011	85,600	125,600
May 2011	24 June 2011	45,100	76,400
June 2011	25 July 2011	(75,100)	(75,100)
July 2011	24 August 2011	100,700	88,400
August 2011	30 September 2011	125,600	125,600
September 2011	25 October 2011	(65,100)	40,500
October 2011	25 November 2011	(125,100)	(136,400)
November 2011	22 December 2011	82,500	100,700
December 2011	25 January 2012	35,400	55,400

The additional VAT payments were made in January 2012.

Required:

- (i) Calculate the penalties payable for failing to submit the value added tax (VAT) returns on the due dates; (3 marks)
- (ii) Calculate the additional VAT payable as a result of the audit; (2 marks)
- (iii) Calculate the interest that would be payable on the additional VAT due for February 2011. (3 marks)

(15 marks)

- 4 (a) San Semente Sports and Recreation Club was formed to provide recreation activities to the residents of Landilani. The Club makes up its financial statements to 31 December annually.

The Statement of Receipts and Payments for the year ended 31 December 2011 was as follows:

	K
Receipts	
Opening bank balance	625,100
Membership subscription	2,120,000
Entrance fees for new members	380,500
Bar sales	3,620,000
Sale of band tickets	480,000
Restaurant sales	875,500
Drama	105,000
	<hr/>
	8,206,100
Payments	
Purchase of goods for bar	2,980,000
Purchase of drinks and supplies for restaurant	620,500
Hire of band	125,000
Wages for groundsmen and guards	1,820,000
Salaries for other staff	1,560,000
Expenses for drama	62,000
Other club running expenses	950,000
	<hr/>
	8,117,500
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Closing bank balance	88,600

The following further information is available in connection with the affairs of the club:

	31 December 2011	31 December 2010
	K	K
Creditors for bar purchases	356,400	284,000
Subscription received in advance	240,000	200,000
Subscription in arrears	100,000	200,000
Debtors for bar sales	250,000	200,000
Bar stock at cost	870,000	625,000

Required:

Calculate the income tax payable by San Semente Sports and Recreation Club for the year ended 31 December 2011, clearly explaining the reasons for your treatment of the items of income and expenditure, including those which are not taxable or tax deductible. (12 marks)

- (b) **Explain how the taxable income of an agricultural producers co-operative society, registered under any Malawi Law, which is not exempt from income tax is determined.** (3 marks)

(15 marks)

5 Dziko Limited is a trading company and has three supermarkets in three residential areas of Blantyre.

The current results for the year ended 31 December 2011 were as follows:

	K	K
Turnover		45,500,000
Less cost of sales		(31,850,000)
Gross profit		<u>13,650,000</u>
Less Expenditure		
Administration costs	8,200,100	
Finance costs	<u>3,400,500</u>	<u>11,600,600</u>
Net profit		<u>2,049,400</u>

The following information is available in connection with these results:

Depreciation charged and included in administration costs was:

	K
– till and office equipment	675,000
– motor vehicles	1,116,800

Capital allowances to be claimed have been agreed as follows:

– till and office equipment	828,000
– motor vehicles	1,862,500

Motor vehicles are made up of both saloon cars and delivery vans.

Management is considering expanding the operations by opening two additional shops in new residential areas. They require board approval for this.

If the new shops are not opened, the results for the year ending 31 December 2012 are expected to be the same as the year ended 31 December 2011. However, if the new shops are opened, the results for the year ending 31 December 2012 are expected to be as follows:

	K	K
Turnover		50,160,500
Less cost of sales		(35,112,350)
Gross profit		<u>15,048,150</u>
Less Expenditure		
Administration costs	8,856,108	
Finance costs	<u>3,672,540</u>	<u>12,528,648</u>
Net profit		<u>2,519,502</u>

As a result of the expansion, depreciation charge will increase by:

	K
– till and office equipment	40,500
– motor vehicles	116,800

Capital allowances will increase by:

– till and office machines	49,500
– motor vehicles	186,250

Required:

Based on the information above, advise the management whether they should consider the expansion programme. Support your answer with detailed calculations of the tax implications of the expansion programme.

Note: You should assume that the tax rates for 2012 remain the same as 2011.

(15 marks)

End of Question Paper